

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 PA-02 PRS-01 AGR-10 /120 W

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 4689

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

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AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

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USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 03 LONDON 14147

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING SEPT. L2

BEGIN SUMMARY: REDUCING INFLATION AND HOLDING THE LINE
ON PUBLIC SPENDING WERE THE THEMES OF STATEMENTS BY THE
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PRINCIPAL GOVERNMENT ECONOMIC SPOKESMEN AS THEY PREPARED

THE GROUND FOR THE LABOUR PARTY CONFERENCE LATE THIS MONTH. THE PLETHORA OF ECONOMIC INDICATORS SHOWED DIVERGENT TRENDS. THE SECOND QUARTER CURRENT ACCOUNT DEFICIT WAS REDUCED BUT AUGUST TRADE FIGURES SHOWED A WIDENING DEFICIT. A MARKED DECLINE IN RETAIL PRICE INFLATION WAS UNDERMINED BY A SHARP INCREASE IN WHOLESALE PRICES.

1. RISE IN RETAIL PRICES SLOWS IN AUGUST. THE AUGUST RETAIL PRICE INDEX STOOD AT 139.3 AN INCREASE OF 0.6 PERCENT FROM ITS JULY LEVEL OF 138.5. WHILE THE ANNUAL RATE OF INCREASE BETWEEN THE PRESENT LEVEL AND THAT OF AUGUST 1974 IS 26.9 PERCENT, THE RATE OF INCREASE OVER THE PAST THREE MONTHS HAS DROPPED TO 14.3 PERCENT ON AN ANNUAL BASIS.

2. FOOD AND IMPORTS CAUSE SHARP JUMP IN WHOLESALE PRICES. A 7.5 PERCENT INCREASE IN FOOD PRICES TOGETHER WITH THE RECENT DEPRECIATION IN STERLING ACCOUNTED FOR MUCH OF THE 3.5 PERCENT INCREASE IN THE WHOLESALE PRICE INDEX OF RAW MATERIALS (INPUTS) WHICH ROSE FROM 232.8 IN JULY TO 241.0 IN AUGUST. DURING THE THREE MONTHS TO AUGUST THIS INDEX ROSE AT AN ANNUAL RATE OF 26.9 PERCENT COMPARED WITH 12.8 PERCENT FOR THE PREVIOUS 3-MONTH PERIOD. OUTPUT PRICES ROSE BY A MORE MODEST 1 PERCENT DURING AUGUST WITH THE WHOLESALE PRICE INDEX FOR OUTPUTS RISING TO 193.7 FROM THE JULY LEVEL OF 191.7. FOR THE PAST 3 MONTHS THE RATE OF INCREASE IN OUTPUT PRICES HAS BEEN AT AN ANNUAL RATE OF 13.7 PERCENT, A CONSIDERABLE IMPROVEMENT OVER THE PREVIOUS 3-MONTH PERIOD WHERE THE RATE OF INCREASE WAS 25.9 PERCENT. THUS JUST WHEN THE RATE OF INCREASE IN OUTPUT PRICES SHOWS DEFINITE SIGNS OF SLACKENING, IMPORT PRICES, OVER WHICH BRITAIN HAS LITTLE CONTROL, RISE SHARPLY.

3. RETAIL SALES VOLUME UP SLIGHTLY IN JULY. REVISIONS IN THE JULY RETAIL SALES INDEX HAVE RESULTED IN A FINAL FIGURE OF 104.7 (1971 EQUALS 100) UP SLIGHTLY FROM THE PROVISIONAL ESTIMATE OF 104.5. JULY RETAIL SALES VOLUME WAS 5 PERCENT LOWER THAN THE AVERAGE MONTHLY LEVEL DURING THE FIRST HALF OF 1975 AND 4.3 PERCENT BELOW THE JULY UNCLASSIFIED

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1974 LEVEL OF 109.2. THE RETAIL SALES FIGURES ARE STILL BEING INFLUENCED BY THE BUYING SPREE JUST PRIOR TO THE INTRODUCTION OF THE VALUE ADDED TAX INCREASES CONTAINED IN THE APRIL BUDGET.

4. BANKING STATISTICS SHOW CONTINUING WEAKNESS IN BUSINESS DEMAND. THE MONTHLY STATEMENT OF BALANCES OF THE 5 CLEARING BANKS SHOW THAT IN THE FIVE WEEKS TO AUGUST 20

STERLING ADVANCES TO THE PRIVATE SECTOR FELL BY 191 MILLION POUNDS. IN PART, THIS IS ATTRIBUTED TO A DECLINE OF 152 MILLION POUNDS IN CLEARING BANKS' LENDING TO MANUFACTURING INDUSTRY DURING THE 3 MONTHS ENDING AUGUST 20. ON THE OTHER SIDE OF THE LEDGER, IN THE 5 WEEKS TO AUGUST 20, STERLING DEPOSITS BY U.K. RESIDENTS ROSE BY 375 MILLION POUNDS. SUCH AN INCREASE IS CONTRARY TO SEASONAL EXPECTATION AND IS PARTIALLY EXPLAINED BY A TEMPORARY RISE

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FM AMEMBASSY LONDON

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IN PUBLIC SECTOR ACCOUNT BALANCES. ISSUES OF STERLING CERTIFICATES OF DEPOSIT FELL BY 175 MILLION POUNDS REFLECTING THE ABILITY OF THE CLEARING BANKS TO FINANCE THE REDUCED VOLUME OF LENDING FROM THEIR BRANCH DEPOSITS. CLEARING BANK HOLDINGS OF TREASURY BILLS ROSE BY 101 MILLION POUNDS AND LOANS TO THE DISCOUNT MARKET INCREASED
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BY 150 MILLION POUNDS. THE RESERVE RATIO FOR THE FIVE BANKS FELL FROM 13.7 TO 13.6 DURING THE FIVE-WEEK PERIOD.

5. HEALEY AND FOOT GIVE ECONOMIC WARNING TO LABOUR PARTY EXECUTIVE. SPEAKING BEFORE THE NATIONAL EXECUTIVE COMMITTEE OF THE LABOUR PARTY THE CHANCELLOR OF THE EXCHEQUER SAID THAT BRITAIN WOULD FACE A DIFFICULT WINTER SINCE NO REFLATIONARY MEASURES COULD BE CONSIDERED BEFORE THERE WAS CONCRETE EVIDENCE OF A SLOWING IN THE RATE OF INFLATION. EMPLOYMENT SECRETARY MICHAEL FOOT ECHOED THE CHANCELLOR'S WARNING SPEAKING OF THE POSSIBILITY OF THE FALL OF THE PRESENT GOVERNMENT SHOULD INFLATION CONTINUE AT MORE THAN 20 PERCENT A YEAR. BOTH HEALEY AND FOOT PROMISED TO CUSHION THE IMPACT OF UNEMPLOYMENT BY A LARGE-SCALE EXPANSION OF INDUSTRIAL RETRAINING FACILITIES AND SPARING NO EFFORT TO MAKE THE RECENTLY INSTITUTED 10 POUND PER WEEK EMPLOYMENT SUBSIDY PROGRAM EFFECTIVE. THE COMMITTEE WAS TOLD THAT AT PRESENT
PUBLIC SECTOR SPENDING IS EXCEEDING REVENUES BY 20 PERCENT AND THIS COULD NOT CONTINUE WITHOUT THE EVENTUAL NEED TO RAISE INCOME TAXES TO A MARGINAL RATE OF 50 PERCENT FOR THE AVERAGE WORKER.

6. CURRENT ACCOUNT IMPROVES IN THE SECOND QUARTER. IN MILLIONS OF POUNDS, SEASONALLY ADJUSTED, THE CURRENT ACCOUNT IS ESTIMATED TO HAVE BEEN IN DEFICIT BY 235 IN THE SECOND QUARTER, RECORDING A SMALL IMPROVEMENT IN THE DEFICIT OF 316 RECORDED IN THE FIRST QUARTER AND A SUBSTANTIAL GAIN FROM THE 1974 DEFICITS WHICH AVERAGED OVER 900 A QUARTER. THERE WAS A SIGNIFICANT REDUCTION IN THE DEFICIT ON VISIBLE TRADE WHICH, AT 525, WAS 197 SMALLER THAN IN THE PRECEDING QUARTER. THE DEFICIT ON OIL WAS 641 (781 IN FIRST QUARTER); TRADE IN OTHER GOODS SHOWED A SURPLUS FOR THE SECOND CONSECUTIVE QUARTER OF 116 (59) THE SURPLUS IN INVISIBLES IS ESTIMATED AT 290 (DOWN FROM 405 IN FIRST QUARTER), DUE IN PART TO TIMING OF EC PAYMENTS. IDENTIFIED INVESTMENT AND OTHER CAPITAL FLOWS IN THE SECOND QUARTER SHOWED A NET INFLOW OF 70 (FOLLOW-

ING AN INFLOW OF 130 IN THE FIRST QUARTER). WITHIN THE
CAPITAL FLOWS, EXCHANGE RESERVES HELD IN STERLING FELL BY
261, (PLUS 222) OFFSET BY AN INCREASE OF 286 (PLUS 19) IN
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OTHER EXTERNAL BANKING AND MONEY MARKET LIABILITIES
HELD IN STERLING. MORE PRECISE INFORMATION ON COMPOSITION
OF THESE FLOWS SHOULD BE AVAILABLE NEXT WEEK WHEN BANK OF
ENGLAND QUARTERLY REPORT WILL BE PUBLISHED. ON NON-SEAS-
ONAL ADJUSTED BASIS, SECOND QUARTER DEFICIT ON CURRENT AC-
COUNT WAS 336 (604), OFFSET BY POSITIVE INFLOW ON IDENTI-
FIED INVESTMENT OF 70 (MINUS 130), WITH A NEGATIVE ER-
RORS AND OMISSIONS OF 153 (PLUS 448) LEAVING NEGATIVE CUR-
RENCY FLOW, (AKIN TO U.S. OFFICIAL RESERVES TRANSACTIONS
BASIS) OF 419 (287) ENTIRELY FINANCED BY DRAWING DOWN OF-
FICIAL RESERVES. AIRGRAM WITH TABLE FOLLOWS.

7. TRADE DEFICIT INCREASES IN AUGUST. IN AUG-
UST THE CURRENT ACCOUNT IN MILLIONS OF POUNDS IS ESTIMA-
TED TO HAVE BEEN IN DEFICIT BY 260. THE DEFICIT ON TRADE
IN GOODS WAS 370, SEASONALLY ADJUSTED, MADE UP OF A DEFI-
CIT OF 278 MILLION IN TRADE IN OIL (THAT IS, PETROLEUM
AND PETROLEUM PRODUCTS) AND A DEFICIT OF 92 MILLION IN
TRADE IN NON-OIL GOODS. THE BALANCE ON SERVICES AND OTH-
ER CURRENT TRANSACTIONS IS ESTIMATED TO HAVE BEEN RUNNING
AT A MONTHLY SURPLUS OF ABOUT 110. IN THE THREE MONTHS
JUNE TO AUGUST 1975 THE CURRENT ACCOUNT DEFICIT TOTALLED
527 COMPARED WITH 155 IN THE PREVIOUS THREE MONTHS. THE
VALUE OF EXPORTS WAS 1494 AND THE VALUE OF IMPORTS WAS
1864. THE VISIBLE TRADE DEFICIT WAS LARGER THAN THE DEFI-
CIT OF 293 IN JULY; THE VALUE OF EXPORTS FELL BETWEEN THE
TWO MONTHS WHILE THE VALUE OF IMPORTS, WHICH INCLUDED THE
ARRIVAL OF TWO MORE NORTH SEA OIL PRODUCTION INSTALLA-
TIONS VALUED AT ABOUT 80, WAS LITTLE CHANGED. IN TERMS O
F VOLUME EXPORTS FELL BY 6-1/2 PERCENT BETWEEN THE TWO
MONTHS AND IMPORTS BY 3-1/2 PERCENT. THERE WAS NO CHANGE
IN THE TERMS OF TRADE AS THE UNIT VALUE INDEX FOR EXPORTS
AND FOR IMPORTS BOTH ROSE BY 1-1/2 PERCENT. DETAILED
CABLE FOLLOWS.

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FM AMEMBASSY LONDON

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INFO AMEMBASSY BERN

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8. EXCHANGE RATE AND GOLD:

(DATES)	9/4	9/11	CHANGE
EXCHANGE RATE	\$2.1095	\$2.1100	UP \$0.0005
EFFECTIVE DEPRECIATION			
(PERCENT)	27.6	27.3	NARROWED 0.3

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GOLD	\$153.00	\$148.00	DOWN \$5.00
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9. FORWARD DISCOUNT ON STERLING:

(DATES)	9/4	9/11	CHANGE
1 MONTH	0.65	0.60	DOWN 0.05
3 MONTHS	1.78	1.75	DOWN 0.03
6 MONTHS	3.25	3.15	DOWN 0.10

(ALL FIGURES IN CENTS)

10. EURODOLLAR INTEREST RATES:

(DATES)	9/4	9/11	CHANGE
1 MONTH	6-3/4	6-7/8	UP 1/8
3 MONTHS	7-1/4	7-1/4	UNCHANGED
6 MONTHS	8-1/8	8-1/4	UP 1/8

11. LOCAL AUTHORITY DEPOSIT RATES;

(DATES)	9/4	9/11	CHANGE
1 MONTH	10-1/8	10 1/8	UNCHANGED
3 MONTHS	10-3/8	10-11/32	DOWN 1/32
6 MONTHS	10.11/16	10-9/16	DOWN 1/8

12. THE MINIMUM LENDING RATE REMAINS AT 11 PERCENT AS OF FRIDAY, SEPTEMBER 12, 1975.

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